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TREASURY FOR A/S COHEN

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [BU](#)
SUBJECT: BULGARIA: SCENESETTER FOR ASSISTANT TREASURY
SECRETARY COHEN'S VISIT

Classified By: DCM Susan Sutton for reasons 1.4 (b) and (d).

1. (C) Summary. Embassy Sofia welcomes you and looks forward to a successful visit. The new center-right GERB government has made fighting corruption and organized crime its top priority, but faces significant challenges. Bulgarian criminals have developed sophisticated means to launder money through legal loopholes and corrupt officials. Law enforcement and oversight have not kept pace. The Borissov government has declared its willingness to take bold steps to fight money laundering, but our support is critical to maintain the momentum of reform. Your visit, along with the visit of Assistant Secretary of Defense for International Security Affairs Alexander Vershbow during the same week, will demonstrate the importance we place on our bilateral relationship and the reform process PM Borissov has launched. End Summary.

OUR GOALS AND RECOMMENDATIONS

2. (C) Since July, the new government has looked to the United States for expertise and advice on its legislative and policy priorities. The Bulgarians have taken positive steps, but need our continued support. Your specific advice to them on our anti-money laundering (AML) recommendations listed below will help focus the debate and motivate the most senior levels of the Government of Bulgaria to move quickly on reform. The embassy has offered four rule of law policy recommendations, and three detailed recommendations specifically for AML and terrorist finance (TF):

a. Institution of interagency organized crime task forces with vetted, interagency teams focused solely on tackling complicated, high-level organized crime and corruption cases.

b. Creation of specialized court divisions of specially trained and vetted judges to hear important organized crime and corruption cases.

c. Implementation of measures to strengthen the government's power to seize assets involved in organized crime and corruption cases.

d. Renewal of efforts against money laundering and terrorist finance by:

i. enforcement of reporting requirements for cash withdrawals over BGN 30,000,

ii. re-establishment of the Financial Intelligence Directorate's (FID) powers to conduct independent on-site

inspections of banks and other financial institutions and to access information classified as "bank secret" or protected by other bank secrecy laws,

iii. reincorporation of the FID into the Ministry of Finance (MoF), a structure that was previously recognized by the U.S. State Department and European Commission as effective, reliable and fully compliant with international standards.

DEBATE ON WAY FORWARD

13. (C) The main area of contention within the government on AML policy is the status and location of the FID. Both Minister of Finance Simeon Dyankov and Minister of Interior Tsvetan Tsvetanov agree that the FID should regain its lost powers, but the two disagree on where the FID should sit. It is essential that Bulgaria's financial intelligence organ have full powers to investigate crimes, as well as the ability to coordinate policy. Dyankov has advocated for the FID to move back to Finance, which seems to be the cleanest solution. Tsvetanov has proposed an alternate plan that would leave the FID within the State Agency for National Security (DANS), while creating a new organ in MoF to handle the policy coordination function. From our perspective, the strength and breadth of FID's powers are more important than where it is situated on the organizational chart. By highlighting the U.S. interests in this decision (FID's powers/cash withdrawal reporting), you can help end the internal squabbling and refocus top decision makers on the key underlying policy issues.

14. (C) The debate between Dyankov and Tsvetanov over the location of the FID has mutated into a political struggle for power and influence. Caught in the middle is Director of the FID Dr. Vasil Kirov. Kirov, a straight-talking bureaucrat and close Embassy contact, has lost favor with some in the government due to his vocal involvement in the debate and a perception by some that he is primarily interested in defending his turf and expanding his influence.

THE BANKING SECTOR

15. (C) Most international banks in Bulgaria already comply with the AML and TF regulations of Bulgarian law. Only a small group of banks, mostly Bulgarian owned, fall short of compliance. These banks coordinate their resources within the Association of Banks in Bulgaria (ABB) and have significant influence in Bulgarian politics. In the past, they have fought back against pressure to comply with new regulations.

16. (C) Banking and financial authorities are aware of the most notorious banks and claim to be working hard to create legislation to bring practices in line with western standards and to step up enforcement activities. The Bulgarian National Bank (BNB) is the main governmental organ responsible for overseeing the activities of registered banks in Bulgaria. In a recent meeting with the embassy, Ivan Iskrov, Governor of the BNB since 2003, painted an optimistic picture of the Bulgarian banking sector and asserted that banks here are tightly-regulated and not preferred conduits for money launderers. Iskrov considers the anti-money laundering legislation in Bulgaria to be sufficient and argues that it would be wiser to make better use of current enforcement mechanisms than to change the law. Iskrov dismisses FID Director Kirov's complaints about legislative loopholes and a lack of investigative tools as excuses for not producing results.

17. (C) We believe Iskrov views the banking sector and Bulgaria's AML regulations with rose colored glasses. His perception may be either genuine misunderstanding or willful ignorance. Stressing U.S. concerns about Bulgarian bank noncompliance with AML regulations and legislative loopholes

will be key. The system will not be effective until the FID has complete and indispensable authority to conduct on-site inspections and cash withdrawal reporting is fully implemented.

YOUR MEETINGS

18. (C) You will meet with Deputy Prime Minister and Minister of Finance Simeon Dyankov, Deputy Prime Minister and Minister of Interior Tsvetan Tsvetanov, Director of the Financial Intelligence Directorate of DANS Vasil Kirov, Governor of the BNB Ivan Iskrov, Director of DANS Tsvetlin Yovchev, and Deputy Foreign Minister Milen Lyutskanov. Bios for these officials will be sent separately. These officials state the government is up to the task of improving its anti-money laundering and terrorist finance regime. However, there is a risk that internal squabbling could derail reform.

Your visit is an ideal opportunity to refocus the AML reform debate on results rather than bureaucratic turf battles.

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